

GREEN BUDGETING IN CROATIA

ZELENO PLANIRANJE PRORAČUNA U HRVATSKOJ

ŠIMOVIĆ, Hrvoje

Abstract: *Green budgeting integrates climate goals into a budgetary framework. Budgets play an essential role in resourcing national policies and can affect the environment. In Croatia, there is no direct system of green budgeting based on the Budget Act. Elements of green budgeting have been indirectly implemented through the Act on the System of Strategic Planning and Development Management of the Republic of Croatia, i.e., the Implementation Programs. The paper will present the possibilities of the green budgeting that such a system offers, from medium-term planning, linking specific objectives to budget allocation and tagging measures within the Implementation Programs.*

Key words: *green budgeting, Implementation programs, Croatia*

Sažetak: *Zeleno planiranje proračuna integrira klimatske ciljeve u proračunski okvir. Proračuni igraju važnu ulogu u osiguravanju nacionalnih politika i mogu imati implikacije na okoliš. U Hrvatskoj ne postoji izravni sustav zelenog planiranja proračuna temeljenog na Zakonu o proračunu. Elementi zelenog planiranja proračuna neizravno su implementirani kroz Zakon o sustavu strateškog planiranja i upravljanja razvojem RH, odnosno kroz Provedbene programe. U radu će biti prikazane mogućnosti zelenog planiranja proračuna koje takav sustav nudi, od srednjoročnog planiranja, povezivanja specifičnih ciljeva s proračunskom alokacijom i označavanja mjera unutar Provedbenih programa.*

Ključne riječi: *zeleno planiranje proračuna, Provedbeni programi, Hrvatska*



Author's data: Hrvoje, Šimović, prof. dr.sc., Faculty of Economics & Business, University of Zagreb, J.F. Kennedy 6, Zagreb, hsimovic@efzg.hr

1. Introduction

The concept of green budgeting involves a variety of budgeting tools to achieve environmental and climate goals. These tools are part of a country's annual and/or multi-annual budget planning process. They are most often implemented at the central government level, but green budgeting tools can also be used at the regional and local levels.

In essence, "green" budget expenditures have a positive contribution to environmental goals in the broadest sense. First, it refers to climate change mitigation or adaptation to climate change. On the other hand, it refers to other dimensions of the environment such as ecosystems, biodiversity, water management, air quality, protection of marine resources, pollution prevention, etc.[1]

In Croatia, there is no direct system of green budgeting that would be implemented based on the existing budget planning system based on the Budget Act [2]. Elements of green budgeting are mostly indirectly implemented through the Act on the System of Strategic Planning and Development Management of the Republic of Croatia [3], i.e. through the Implementation Programs. Implementation Programs are short-term acts of strategic planning that ensure the implementation of specific objectives from long-term strategies and medium-term plans and the link with the corresponding budget. Implementation Programs are adopted by central state administrative bodies and regional and local government units for four years. This has established a medium-term budgetary framework that allows for better implementation of direct performance budgeting.

The main thesis of this paper is based on the fact that such a budget framework offers adequate tools that enable better implementation of "green" policy and sustainable development policy. The main objective of this paper is to present the essential elements of the medium-term budget process in Croatia that can be classified as green budgeting tools. According to the insight of the existing domestic literature, this is the first paper dealing with green budgeting in Croatia.

After Introduction, second part of the paper describes the basic elements of green budgeting. The third part is the main part of the paper. Third part provides an overview and analysis of the green budgeting elements and possibilities in the Croatian fiscal system. The last part is the Conclusion.

2. Green budgeting: general framework and main tools

In cooperation with the IMF and the OECD, the European Commission has defined the main elements and practices that make up the framework for green budgeting [1, 4, 5]. Certain assumptions can significantly improve the effectiveness of the implementation of green budgeting. First of all, the strategic framework, i.e. development strategies and national plans of a particular country, must consider

climate change and environmental protection. Second, it necessarily uses budgetary policy tools that contribute to evidence-based decision-making. Third, an institutional design with clearly defined responsibilities and a timeframe for action contributes significantly to the quality of green budgeting. Lastly, to ensure budgetary openness and accountability, it is necessary to use the tools of transparent reporting and independent oversight. [4]

Several tools are used to address "green" issues in budget policy. There are also several ways to group the mentioned tools. The most important and most frequently used tools are: [4, 5]

1. Incorporating environmental objectives into the medium-term budgetary (fiscal) framework, while emphasizing the links between the economy, fiscal policy, and the environment;
2. Incorporating climate change into fiscal risk assessments and governance development (who does what?) of mentioned risks;
3. Tagging budget items that contribute positively or negatively to the environment and, in general, the development of a system for identifying contributions to green goals;
4. Development of an adequate presentation format for green budget spending;
5. Green reporting, i.e. the development of tools that strengthen transparency and accountability in achieving green goals.

Green budgeting in the EU is still in its infancy. There are significant differences among member states in applying the concept of green budgeting. Many Member States do not use green budgeting tools at all. The ones they use are most common tools are various ex-ante and ex-post environmental impact assessments and green tagging of budget expenditures. Different practices are still reflected in the context of governance (who does what?) and the establishment of budget transparency and accountability.[5]

3. Possibilities of implementing green budgeting in Croatia

With the development of a new system of strategic planning, Croatia has received an adequate framework for implementing the concept of green budgeting. The main instrument through which green budgeting tools can be used is the Implementation Program. Through the Implementation Programs, specific development objectives are linked to the budget allocation, a general tool that can be applied to green issues. Another essential tool is the obligation to "tag" measures within the Implementation Program. The third more important tool is to strengthen the transparency of accountability for implementing measures within the Implementation Program.

3.1. Implementation Programs

Implementation Programs are short-term acts of strategic planning adopted at the level of central state administrative bodies and at the level of regional and local

government units. Given that environmental issues are national, the paper will focus on the possibility of green budgeting at the national level. Of course, this does not diminish the importance of regional and local governments and their role in economic development and achieving green goals.

Implementation Programs are adopted by ministries and other state administrative bodies based on Government program and other medium-term (eg national plans) and long-term strategic documents (eg development strategy). They are adopted for the entire mandate of the Government, i.e. they represent a 4-year strategic plan in which special development goals (and thus environmental goals) are linked to the State Budget. Connection with the State Budget is made through measures.

Measures are a central element of an individual Implementation Program. During the preparation of the Implementation program, it is necessary to connect all the developed measures with the sources of financing in the State Budget and the program classification of the budget. Measures are implemented through activities or projects, and activities and projects are items in the budget.

Measures can be characterized as reform, investment, or other measures. Regardless of the classification of measures, they must be brought into direct connection with one specific development goal taken from a hierarchically higher strategic document. In doing so, it is important to assess and describe to what extent and in what way the results of the implementation of the proposed measure contribute to the achievement of the outcome of the specific objective.

3.2. Medium-term budgetary framework and linking to environmental objectives

The Implementation programs and the State Budget must be linked. The link is realized at the level of the specific objective and budget program, i.e. at the level of activities and projects for implementing measures. The ultimate goal of such a connection is:

- a) that the budget allocation for each measure, i.e. collectively for a specific objective, can be clearly and unequivocally determined at any time, and
- b) that the assessment of such defined measures can be performed through the result indicator, i.e. the assessment of the achievement of specific objectives through the outcome indicator.

Figure 1 shows the logic of linking the specific objective and measures to the budget. According to the logic of linking, specific objectives are taken from the medium-term act of strategic planning (development plan) for which outcome indicators must be defined.

According to the recommendations and principles of the introduction of the Implementation Programs, a specific objective may be financed from one or more budget programs. An individual budget program can contribute to achieving only one specific objective. Analogously, an individual measure, established for implementing

one objective, is financed from one budget program. Ultimately, one budget activity or project in the budget finances the implementation of one measure. [6]

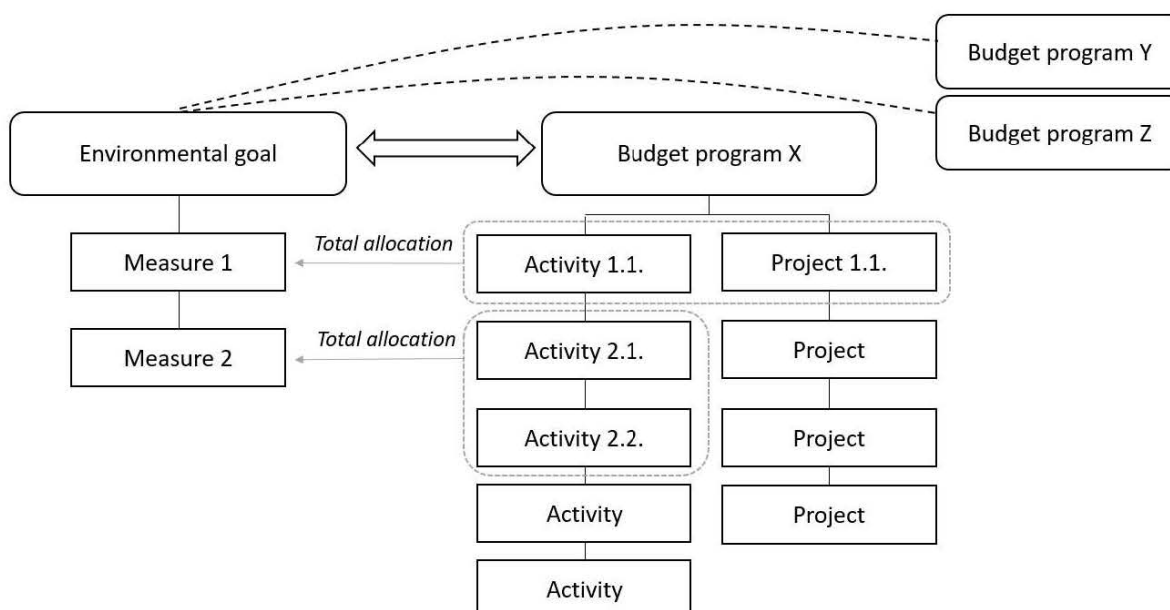


Figure 1. The link between the specific objective of environmental protection and the budget allocation

The principles mentioned above allow for a clear definition of the budget allocation for each specific objective. Therefore, if environmental objectives are set, it is possible to monitor 4-year budget projections for that target. Likewise, it is possible to assess the performance through the values of the outcome indicators set for the observed period.

The goals of environmental protection and sustainable development are predominantly the subject of the Implementation Program of the Ministry of Economy and Environmental Protection. Some environmental objectives may be contained in the Implementation Programs of other ministries. Since objectives are taken from hierarchically higher strategic documents (strategies or plans), it is relatively easy to link budget allocations within different ministries that contribute to a particular environmental objective.

This system was implemented in 2021. There are still some problems in the full implementation and adherence to the mentioned recommendations. It will probably take some time for the recommendations linking budgets and specific objectives to be fully implemented. In any case, one of the essential tools of green budgeting is present in Croatian practice.

3.3. Tagging of measures

Another essential element of green budget planning in Croatia is the obligation to "tag" measures within the Implementation Program. All measures should be marked YES / NO if the measure contributes to:

1. the implementation of the Sustainable Development Goals (SDGs) under UN Agenda 2030,
2. the green transition and
3. the digital transformation.

There are still some aspects of tagging, but it is essential to point out that there is a direct tagging related to the green transition and the goals of sustainable development, which for the most part have "green" characteristics. With the possibility of tagging measures, Croatia is applying another essential tool of green budgeting.

3.4. Transparency and accountability

Each ministry and other body developing the Implementation Programs must publish it on its website. The report is supplemented by an Excel table in which each measure's characteristics are displayed horizontally (name, purpose, allocation, budget program, tagging, and result indicators for each measure).

Furthermore, each ministry prepares an Annual Work Plan in addition to the Implementation Programs. The Annual Work Plan is a planning and management implementation act with measures that are planned to be implemented in the public administration body in a specific year. It elaborates the needs of human, material, and financial resources needed to achieve the set goals and implement measures in more detail. All activities in the Annual Work Plan must be linked to the measures defined in the Implementation Program. [7] This further strengthens the responsibility for implementing "green" policies and other social and economic policies. These are undoubtedly additional tools that contribute to green budgeting in Croatia.

4. Conclusion

Since 2018, a new strategic planning and development management system has been in place in Croatia. At the beginning of 2020, the provisions related to the obligation to prepare Implementation Programs came into force, both for state administrative bodies and local and regional units. Implementation Programs and other accompanying strategic planning policies have opened up opportunities for the implementation of green budgeting in Croatia.

Unfortunately, the primary budget planning system, defined by the Budget Act [2], does not overlook the elements of green budgeting. They are consciously left to the strategic planning system and the corresponding Act[3]. Thus, the functional responsibility for green budgeting was transferred from the Ministry of Finance to the Ministry of Regional Development and EU Funds. Unfortunately, such institutional dispersion raises the question of effective green budgeting in Croatia. The same transition was made for the strategic planning system in general. Many issues in the strategic planning segment go through their developmental "diseases" and spontaneous implementation.

The weakness of this analysis stems from the fact that Croatia is still at an early stage in developing a green budgeting system and it is difficult to make a concrete assessment. What is certain is that Croatia has the basic tools of green budgeting at its disposal. How seriously they will be taken depends on how many "green" issues will be on the repertoire of daily political issues and public interest.

5. Literature

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